

**Sewer Enterprise Fund of the City of Crescent  
Independent Auditors' Report  
Basic Financial Statements and  
Supplementary Information  
Schedule of Findings**

**June 30, 2011 and 2010**

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**City of Crescent  
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marialice Leggio	Mayor	January 2012
Daryl Clark	Council Member	January 2012
Pat Morgan	Council Member	January 2012
Chuck Stokes	Council Member	January 2012
Bob Anderson	Council Member	January 2014
Elvis Jacobsen	Council Member	January 2014
Mary Martin	City Clerk	Indefinite
Vicki Overly	Treasurer	Indefinite



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

November 16, 2011

# Independent Auditors' Report

To the Honorable Mayor and  
the Members of the City Council  
City of Crescent  
Crescent, IA 51526

We have audited the accompanying financial statements of the Sewer Enterprise Fund of the City of Crescent, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the City of Crescent's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Sewer Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City of Crescent, Iowa, as of June 30, 2011 and 2010, and the changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Enterprise Fund of the City of Crescent at June 30, 2011 and 2010, and the changes in its financial position and the cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Continued...

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November 16, 2011  
Sewer Enterprise Fund of the City of Crescent  
Independent Auditors' Report

In accordance with *Government Auditing Standards* we have also issued our report dated November 16, 2011, on our consideration of the Enterprise Fund's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, and pages 21 through 25, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 5 and 6 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Information in Schedules 5 and 6 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Schroer & Associates, P.C.*

## **Sewer Enterprise Fund of the City of Crescent** **Management's Discussion and Analysis**

The City of Crescent provides this management's discussion and analysis of its Sewer Enterprise Fund's financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended June 30, 2011. We encourage readers to consider this information in conjunction with the Fund's financial statements, which follow.

### **Financial Highlights**

- Sewer operating revenues decreased \$3,391, from fiscal 2010 to fiscal 2011.
- Sewer operating expenses increased \$1,725, from fiscal 2010 to fiscal 2011.
- Sewer net operating income decreased \$5,115, from fiscal 2010 to fiscal 2011.
- The Sewer Enterprise Fund's net assets increased \$33,216 to \$999,585 mostly due to grant revenue of \$52,208.

### **Using This Annual Report**

The Sewer Enterprise Fund's financial statements are presented using accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to of the Sewer Enterprise Fund of the City of Crescent financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's discussion and analysis introduces the financial statements and provides an analytical overview of the Fund's financial activities.

The Statement of Net Assets presents information on the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Fund's operating revenues and expenses, non-operating revenues and expenses and whether the Fund's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Fund's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Fund financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

## Financial Analysis of the Sewer Enterprise Fund

### Statement of Net Assets

Net assets may serve over time as a useful indicator of the Fund's financial position. The Fund's net assets for fiscal 2011 totaled \$999,585. This compares to \$966,369 for fiscal 2010. A summary of the Fund's net assets is presented below.

Net Assets		
	June 30,	
	2011	2010
Current and other assets	\$ 386,790	\$ 230,993
Capital assets	1,852,212	1,911,788
	<u>2,239,002</u>	<u>2,142,781</u>
Current liabilities	186,968	108,559
Long term liabilities	1,052,449	1,067,853
	<u>1,239,417</u>	<u>1,176,412</u>
Net assets:		
Invested in capital assets, net of related debt	784,359	829,159
Restricted for:		
Debt reserve	71,830	55,370
Funded depreciation	88,000	77,000
Unrestricted	<u>55,396</u>	<u>4,840</u>
Total net assets	\$ <u>999,585</u>	\$ <u>966,369</u>

The largest portion of the Fund's net assets is invested in capital assets, net of related debt.

### Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for sewer sales. Operating expenses are expenses paid to operate the sewer systems. Non-operating revenues and expenses are for interest income and expense, grant and other miscellaneous revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010 is presented as follows:

Changes in Net Assets			
	Year ended June 30,		
	2011	2010	
Operating revenues:			
Sewer fees	\$ 107,624	\$ 111,015	
Operating expenses:			
Contract services	1,486	2,717	
Depreciation	59,576	59,576	
Insurance	1,064	1,242	
Office	2,419	2,486	
Repairs	4,735	2,055	
Salaries and benefits	10,045	9,481	
Supplies	182	466	
Utilities	2,342	2,102	
Total operating expenses	<u>81,849</u>	<u>80,125</u>	
Operating income	25,775	30,890	
Non-operating revenue:			
Interest income	363	124	
Interest expense	(45,485)	(46,014)	
Permits	355	50	
Grant revenue	<u>52,208</u>	<u>-</u>	
Net non-operating revenues (expenses)	<u>7,441</u>	<u>(45,840)</u>	
Changes in net assets	33,216	(14,950)	
Net assets, beginning of year	<u>966,369</u>	<u>981,319</u>	
Net assets, end of year	\$ <u>999,585</u>	\$ <u>966,369</u>	

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in nets assets of \$33,216 from 2010 to 2011.

In fiscal 2011, operating revenues decreased by \$3,391. Operating expenses increased by \$1,724. Grant revenue increased by \$52,208.

#### Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financial investing activities. Cash provided by operating activities includes sewer sales reduced by payments for operations. Cash used by capital and related financial activities includes the acquisition and construction of capital assets and the payment of interest and revenue notes includes interest income. Cash provided by investing activities includes grants, interest and other income.

#### **Budgetary Highlights**

The Sewer Enterprise Fund did not exceed the amount budgeted in the business type function for 2011.



### Capital Assets

A summary of capital assets, net of accumulated depreciation, for the years ended June 30, 2011 and 2010 is as follows:

	June 30,	
	2011	2010
Capital assets	\$ 2,304,433	\$ 2,304,433
Less accumulated depreciation	<u>452,221</u>	<u>392,645</u>
	<u>\$ 1,852,212</u>	<u>\$ 1,911,788</u>

Depreciation expense totaled \$59,756 for 2011 and \$59,756 for 2010.

### Long-Term Debt

At June 30, 2011 and 2010, the Fund had \$1,067,853 and \$1,082,629, respectively, in sewer revenue debt outstanding.

### Economic Factors

The City of Crescent's elected and appointed officials considered many factors when setting the fiscal year 2011 budget for the Sewer Fund and the user fees that will be charged to fund operations. The City does not anticipate any differences in income/expenses for the upcoming year.

### Contacting the Fund's Financial Management

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Crescent, Crescent, Iowa.

## **Basic Financial Statements**

**Sewer Enterprise Fund of the City of Crescent**  
**Statements of Net Assets**  
**June 30, 2011 and 2010**

ASSETS		2011	2010
Current Assets			
Unrestricted:			
Cash	\$	78,647	\$ -
Accounts receivable		2,470	5,150
Unbilled usage		9,136	9,085
Grant receivable		52,208	-
Sales tax refund receivable		22,500	22,500
Prepaid Insurance		1,211	1,099
Total unrestricted current assets		166,172	37,834
Restricted:			
Debt service fund		60,788	60,788
Total restricted current assets		60,788	60,788
Total current assets		226,960	98,622
Property and Equipment			
Sewer system		2,278,208	2,278,208
Equipment		26,225	26,225
		2,304,433	2,304,433
Less accumulated depreciation		452,221	392,645
		1,852,212	1,911,788
Other Restricted Assets			
Debt reserve fund		71,830	55,371
Funded depreciation		88,000	77,000
		159,830	132,371
	\$	2,239,002	\$ 2,142,781
LIABILITIES AND NET ASSETS			
Current Liabilities			
Payable from unrestricted current assets:			
Cash due bank	\$	-	\$ 1,692
Accounts payable		56	56
Deferred revenue		126,149	-
Retainage payable		-	46,149
		126,205	47,897
Payable from restricted current assets:			
Accrued interest		45,359	45,886
Current portion of long term debt		15,404	14,776
		60,763	60,662
Total current liabilities		186,968	108,559
Long-Term Liabilities			
Sewer revenue notes		1,052,449	1,067,853
Net Assets			
Invested in capital assets, net of related debt		784,359	829,159
Restricted for:			
Debt reserve		71,830	55,370
Funded depreciation		88,000	77,000
Unrestricted		55,396	4,840
		999,585	966,369
	\$	2,239,002	\$ 2,142,781

See accompanying notes to financial statements

**Sewer Enterprise Fund of the City of Crescent**  
**Statements of Revenues, Expenses and**  
**Changes in Net Assets**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Sewer fees	\$ 107,624	\$ 111,015
Operating Expenses		
Contract services	1,486	2,717
Depreciation	59,576	59,576
Insurance	1,064	1,242
Office	2,419	2,486
Repairs	4,735	2,055
Salaries and benefits	10,045	9,481
Supplies	182	466
Utilities	2,342	2,102
Total operating expenses	<u>81,849</u>	<u>80,125</u>
Operating income	25,775	30,890
Non-Operating Revenues (Expenses)		
Interest income	363	124
Interest expense	(45,485)	(46,014)
Permits	355	50
Grant revenue	52,208	-
Net non-operating revenues (expenses)	<u>7,441</u>	<u>(45,840)</u>
Change in net assets	33,216	(14,950)
Net assets, beginning of year	<u>966,369</u>	<u>981,319</u>
Net assets, end of year	\$ <u>999,585</u>	\$ <u>966,369</u>

See accompanying notes to financial statements

**Sewer Enterprise Fund of the City of Crescent**  
**Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 110,254	\$ 109,294
Cash payments for goods and services	(12,297)	(11,933)
Cash payments to employees	(10,088)	(9,860)
Net cash provided by operating activities	<u>87,869</u>	<u>87,501</u>
Cash Flows From Capital and Related Financing Activities:		
Interest paid on revenue notes	(46,012)	(45,756)
Principal paid on revenue notes	(14,776)	(15,032)
Net cash used for capital and related financing activities	<u>(60,788)</u>	<u>(60,788)</u>
Cash Flows From Investing Activities:		
Interest received on investments	363	124
Miscellaneous income received	355	50
Legal settlement proceeds received	80,000	-
Net cash provided by investing activities	<u>80,718</u>	<u>174</u>
Net Increase in Cash	107,799	26,887
Cash, Beginning of Year	<u>191,466</u>	<u>164,579</u>
Cash, End of Year	<u>\$ 299,265</u>	<u>\$ 191,466</u>
Cash Consists of the Following Amounts:		
Unrestricted:		
Cash	\$ 78,647	\$ -
Cash due bank	-	(1,692)
Restricted:		
Debt service fund	60,788	60,788
Debt reserve fund	71,830	55,370
Funded depreciation	88,000	77,000
	<u>\$ 299,265</u>	<u>\$ 191,466</u>
Reconciliation of Operating Income to Net Cash provided by Operating Activities:		
Net Operating Income	\$ 25,775	\$ 30,890
Adjustments to reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	59,576	59,576
Net (increase) decrease in:		
Accounts receivable	2,680	(2,050)
Unbilled usage	(51)	538
Prepaid insurance	(112)	(422)
Net increase (decrease) in:		
Accounts payable	<u>1</u>	<u>(1,031)</u>
	<u>\$ 87,869</u>	<u>\$ 87,501</u>

See accompanying notes to financial statements

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 1 Summary of Significant Accounting Policies**

A. Reporting Entity

These financial statements present only the Sewer Enterprise Fund of the City of Crescent. They do not purport to, and do not present the financial statements of the City of Crescent, Iowa. The Sewer Enterprise Fund is governed by the City Council.

B. Basis of Presentation

Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. Sewer revenues are based on billing rates that are applied to customers' accounts based on their consumption of water. The Sewer Enterprise Fund of the City of Crescent's records estimated unbilled revenues at the end of the accounting periods. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Sewer Enterprise Fund applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 1 Summary of Significant Accounting Policies – Continued**

**D. Assets, Liabilities and Net Assets**

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The Sewer Enterprise Fund considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded at the time the service is billed. Unbilled usage for service consumed between the period scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Restricted Assets and Net Assets – Funds set aside for debt service requirements are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Capital assets are defined by the Sewer Enterprise Fund as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Sewer system	\$ 5,000
Equipment	2,000

Capital assets of the Enterprise Fund are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Sewer system	40 Years
Equipment	10 years

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the years ended June 30, 2011 and 2010, disbursements did not exceed the amounts budgeted.

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 2 Cash and Investments**

The Sewer Enterprise Fund's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Sewer Enterprise Fund is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

The Sewer Enterprise Fund had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No.3.

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 month of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**NOTE 3 Capital Assets**

A summary of changes in capital assets for the years ended June 30, 2011 and 2010 are as follows:

	Balance 06/30/2009	Additions Depr Exp	Balance 06/30/2010	Additions Depr Exp	Balance 06/30/2011
Sewer System	\$ 2,278,208	\$ -	\$ 2,278,208	\$ -	\$ 2,278,208
Equipment	26,225	-	26,225	-	26,225
	2,304,433	-	2,304,433	-	2,304,433
Less accumulated depreciation	333,069	59,576	392,645	59,576	452,221
Capital assets, net	\$ 1,971,364	\$ (59,576)	\$ 1,911,788	\$ (59,576)	\$ 1,852,212

**NOTE 4 Long-Term Debt**

A summary of changes in long-term debt for the years ended June 30, 2011 and 2010 is as follows:

	Issue Date	Balance 06/30/09	Payments	Balance 06/30/10	Payments	Balance 06/30/11
Sewer Revenue Notes	09/29/03	\$ 1,097,661	\$ 15,032	\$ 1,082,629	\$ 14,776	\$ 1,067,853



**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 4      Long-Term Debt – Continued**

The annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	4.25 %	\$ 15,404	45,384	\$ 60,788
2013	4.25 %	16,059	44,729	60,788
2014	4.25 %	16,741	44,047	60,788
2015	4.25 %	17,453	43,335	60,788
2016	4.25 %	18,195	42,593	60,788
2017-2021	4.25 %	103,251	200,689	303,940
2022-2026	4.25 %	127,138	176,802	303,940
2027-2031	4.25 %	156,551	147,389	303,940
2032-2036	4.25 %	192,769	111,171	303,940
2037-2042	4.25 %	237,365	66,575	303,940
2043-2044	4.25 %	166,927	14,338	181,265
		\$ 1,067,853	\$ 937,052	\$ 2,004,905

Revenue notes, totaling \$1,067,853 are outstanding at June 30, 2011. These notes bear interest at a rate of 4.25% per annum and mature in varying annual amounts ranging from \$15,000 to \$58,000, with the final maturity due in the year ending June 30, 2044.

The City has pledged future wastewater customer revenues, net of specific operating expenses, to repay \$1,136,000 in sewer revenue notes issued in September 2003. Proceeds from the notes provided financing for the construction and improvements to the wastewater treatment plant. The notes are payable solely from wastewater customer net revenues and are payable through 2044. Annual principal and interest payments on the notes required 235 percent of net revenues. The total principal and interest remaining to be paid on the notes is \$2,004,905. For the current year, principal and interest paid and total customer net revenues were \$60,788 and \$25,755, respectively.

The resolutions providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sinking account for the purpose of making the principal and interest payments when due.
- (c) At the time of delivery of the notes, \$6,500 shall be deposited into a principal and interest reserve account, and \$6,079 each July 1, until a full annual payment of \$60,788 is accumulated. These funds shall be used for the payment of principal and interest on the notes if, for any reason, funds on deposit in the sinking account are insufficient to pay such when due.
- (d) At the time of delivery of the notes, \$11,000 shall be set aside annually to fund depreciation. These funds shall be used to pay for capital improvements to the sewer system.

The Enterprise Fund is in compliance with the resolutions.

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 5 Interest Costs**

Interest costs are included in the financial statements as follows:

	<u>06/30/11</u>	<u>06/30/10</u>
Expensed	\$ 45,485	\$ 46,014

**NOTE 6 Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding Third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Enterprise Fund's annual contributions to the Pool for the years ended June 30, 2011 and 2010 were \$887 and \$998, respectively.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 6 Risk Management - Continued**

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011 and 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with a surety bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 7 Deferred Revenue**

Deferred revenue consists of damages recognized from a settled litigation with a construction company that will be used to make necessary repairs to the sewer system so it operates properly.

### **Required Supplementary Information**

**Sewer Enterprise Fund of the City of Crescent**  
**Budgetary Comparison Schedule of**  
**Receipts, Disbursements and Changes in Balances**  
**- Budget and Actual (Cash Basis) -**  
**Required Supplementary Information**  
**Year Ended June 30, 2011**

	<u>Actual</u>	<u>Original Budget</u>	<u>Budget to Actual Variance</u>
Receipts:			
Use of money and property	\$ 363	-	363
Charges for service	110,254	111,800	(1,546)
Miscellaneous	80,355	-	80,355
Total revenues	<u>190,972</u>	<u>111,800</u>	<u>79,172</u>
Disbursements:			
Business type activities	<u>83,173</u>	<u>163,788</u>	<u>80,615</u>
Excess (deficiency) of receipts over (under) disbursements	107,799	<u>(51,988)</u>	<u>159,787</u>
Beginning net assets	<u>191,466</u>		
Ending net assets	<u>\$ 299,265</u>		

See accompanying independent auditors' report

**Sewer Enterprise Fund of the City of Crescent**  
**Budget to GAAP Reconciliation**  
**Required Supplementary Information**  
**Year Ended June 30, 2011**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 190,972	(30,422)	160,550
Expenditures/Expenses	<u>83,173</u>	<u>44,161</u>	<u>127,334</u>
Net	107,799	(74,583)	33,216
Beginning net assets	<u>191,466</u>	<u>774,903</u>	<u>966,369</u>
Ending net assets	<u>\$ 299,265</u>	<u>700,320</u>	<u>999,585</u>

See accompanying independent auditors' report

**Sewer Enterprise Fund of the City of Crescent**  
**Budgetary Comparison Schedule of**  
**Receipts, Disbursements and Changes in Balances**  
**- Budget and Actual (Cash Basis) -**  
**Required Supplementary Information**  
**Year Ended June 30, 2010**

	<u>Actual</u>	<u>Original Budget</u>	<u>Budget to Actual Variance</u>
Receipts:			
Use of money and property	\$ 124	-	124
Charges for service	109,294	110,000	(706)
Miscellaneous	50	-	50
Total revenues	<u>109,468</u>	<u>110,000</u>	<u>(532)</u>
Disbursements:			
Business type activities	<u>82,581</u>	<u>118,788</u>	<u>36,207</u>
Excess (deficiency) of receipts over (under) disbursements	26,887	<u>(8,788)</u>	<u>35,675</u>
Beginning net assets	<u>164,579</u>		
Ending net assets	<u>\$ 191,466</u>		

See accompanying independent auditors' report

**Sewer Enterprise Fund of the City of Crescent**  
**Budget to GAAP Reconciliation**  
**Required Supplementary Information**  
**Year Ended June 30, 2010**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 109,468	1,721	111,189
Expenditures/Expenses	<u>82,581</u>	<u>43,558</u>	<u>126,139</u>
Net	26,887	(41,837)	(14,950)
Beginning net assets	<u>164,579</u>	<u>816,740</u>	<u>981,319</u>
Ending net assets	<u>\$ 191,466</u>	<u>774,903</u>	<u>966,369</u>

See accompanying independent auditors' report



**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Required Supplementary Information – Budgetary Reporting**  
**Years Ended June 30, 2011 and 2010**

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. The budget for the Sewer Enterprise Fund only is reflected in the budgetary comparison schedules. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the years ended June 30, 2011 and 2010, the disbursements did not exceed the budgeted amount.

**Sewer Enterprise Fund of the City of Crescent  
Other Supplementary Information**

**Sewer Enterprise Fund of the City of Crescent**  
**Budgetary Comparison Schedule of Revenues and Expenditures**  
**- Actual to Budget -**  
**(Prepared for the United States Department of Agriculture)**  
**Year Ended June 30, 2011**

	<u>Actual</u>	<u>Budget</u>	<u>Budget to Actual Variance</u>
Revenues:			
Sewer sales	\$ 107,624	110,200	(2,576)
Interest	363	231	132
Permits	355	-	355
Grant revenue	<u>52,208</u>	<u>-</u>	<u>52,208</u>
	160,550	110,431	50,119
Expenditures:			
Contract services	1,486	1,000	(486)
Depreciation	59,576	58,184	(1,392)
Insurance	1,064	1,500	436
Interest	45,485	45,384	(101)
Office	2,419	3,000	581
Repairs	4,735	5,000	265
Salaries and benefits	10,045	8,100	(1,945)
Supplies	182	-	(182)
Utilities	<u>2,342</u>	<u>3,000</u>	<u>658</u>
Total operating expenses	<u>127,334</u>	<u>125,168</u>	<u>(2,166)</u>
Deficiency of revenues under expenditures	<u>\$ 33,216</u>	<u>(14,737)</u>	<u>47,953</u>

See accompanying independent auditors' report

**Sewer Enterprise Fund of the City of Crescent**  
**Budgetary Comparison Schedule of Revenues and Expenditures**  
**- Actual to Budget -**  
**(Prepared for the United States Department of Agriculture)**  
**Year Ended June 30, 2010**

	<u>Actual</u>	<u>Budget</u>	<u>Budget to Actual Variance</u>
Revenues:			
Sewer sales	\$ 111,015	109,100	1,915
Interest	124	1,047	(923)
Permits	50	-	50
	<u>111,189</u>	<u>110,147</u>	<u>1,042</u>
Expenditures:			
Contract services	2,717	3,000	283
Depreciation	59,576	58,184	(1,392)
Insurance	1,242	2,500	1,258
Interest	46,014	47,571	1,557
Office	2,486	2,000	(486)
Repairs	2,055	3,000	945
Salaries and benefits	9,481	6,000	(3,481)
Supplies	466	1,000	534
Utilities	2,102	3,000	898
Total operating expenses	<u>126,139</u>	<u>126,255</u>	<u>116</u>
Deficiency of revenues under expenditures	<u>\$ (14,950)</u>	<u>(16,108)</u>	<u>1,158</u>

See accompanying independent auditors' report

**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

November 16, 2011

Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the Sewer Enterprise Fund of the City of Crescent, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sewer Enterprise Fund of the City of Crescent's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Crescent's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Crescent's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Sewer Enterprise Fund of the City of Crescent's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings to be material weaknesses.

Continued...

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Sewer Enterprise Fund of the City of Crescent  
Report on Internal Control

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sewer Enterprise Fund of the City of Crescent's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Enterprise Fund's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Crescent's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Crescent's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Crescent and other parties to whom the City of Crescent may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Crescent during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schroer & Associates, P.C.*

**Sewer Enterprise Fund of the City of Crescent**  
**Schedule of Findings**  
**Year Ended June 30, 2011**

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

**I-A-11 Segregation of Duties**

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, posting of the cash receipts to the cash receipts journal, reconciling and financial reporting are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City Treasurer reviews the monthly bank statements and bank reconciliations along with computer generated check registers and deposit listings.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.



**Sewer Enterprise Fund of the City of Crescent**  
**Schedule of Findings**  
**Year Ended June 30, 2011**

**Part II: Other Findings Related to Statutory Reporting:**

**II-A-11 Certified Budget**

Disbursements during the year ended June 30, 2011 did not exceed the amended amounts budgeted.

**II-B-11 Questionable Disbursements**

We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

**II-C-11 Travel Expense**

No disbursements of Enterprise Fund money for travel expenses of spouses of Enterprise Fund officials or employees were noted.

**II-D-11 Business Transactions**

No business transactions were noted between the Enterprise Fund or City officials or employees.

**II-E-11 Bond Coverage**

Surety bond coverage of Enterprise Fund officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**II-F-11 Council Minutes**

Comment - No transactions were found that we believe should have been approved in the Council minutes but were not.

The Council went into closed session during the February 2011 meeting. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although minutes of Council proceedings were published, they did not include a summary of receipts by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish a summary of receipts with the minutes as required.

Response - We will comply with the Code requirements for closed sessions. We documented the purpose of the closed session in the agenda. We will also document in the minutes. We will publish minutes as required.

Conclusion - Response accepted.

**Sewer Enterprise Fund of the City of Crescent  
Schedule of Findings  
Year Ended June 30, 2011**

**Part II: Other Findings Related to Statutory Reporting:**

**II-G-11** Deposits and Investments

We noted no instances of noncompliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

**II-H-11** Revenue Notes

The City is in compliance with the provisions of the sewer bond resolutions.